STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company	)	
d/b/a Nicor Gas Company	)	
	)	Docket No. 08-0363
Proposed general increase in rates, and	)	
revisions to other terms and conditions	)	
of service	)	

NICOR GAS COMPANY'S PREHEARING MEMORANDUM

November 7, 2008

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I. INTRODUCTION/STATEMENT OF THE CASE

Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or the "Company") is requesting a rate increase so that it may have a reasonable opportunity to recover its prudent and reasonable costs of serving its 2.2 million customers. For a number of years, including every year since the Company's last rate case, the Company has not earned its Illinois Commerce Commission ("Commission") -allowed rate of return. This under-recovery trend will continue, as current rates will not allow the Company to recover its 2009 costs to serve customers. Accordingly, Nicor Gas seeks an increase in its base rate revenue requirement of $140,923,000, or an increase of approximately 5% on an average residential customer's total annual bill.

The Company's request is very straight-forward, driven by operating and capital cost increases that the Company is experiencing in meeting its obligations to serve customers. These costs, though, are very reasonable in absolute dollars, and low when compared to other gas utilities in Illinois and across the country. In fact, under proposed rates, Nicor Gas' distribution rates will continue to be the lowest among the major gas utilities in Illinois.

Neither the Commission Staff nor any Intervenor disputes that Nicor Gas requires a rate increase. Staff recommends a rate increase of $62,747,000, while the Office of the Illinois Attorney General ("AG") and the Citizens Utility Board ("CUB")(collectively "AG/CUB") recommend an increase of $50,356,000.[1] These recommendations, however, not only will deny Nicor Gas the opportunity to recover its prudently incurred costs of service, but if adopted also will serve to financially weaken Nicor Gas at a time when Illinois and the Commission should be seeking to encourage financially healthy utilities with strong credit ratings.

As demonstrated in the Company's testimony, several of Staff's and/or AG/CUB's most significant adjustments to the revenue requirement directly contradict prior Commission Orders, including the Company's last rate case Order. Examples of such conflicts include: 1) Staff's proposal to impute short-term debt and create a hypothetical capital structure; 2) a failure to apply the Commission-approved return on equity methodology from the Company's last rate case; and 3) continuing to argue for a cash working capital adjustment that the Commission has twice rejected this year. There simply is no reasonable basis for the Commission to reverse course and apply new standards to Nicor Gas.

Nicor Gas also has proposed a reasonable rate design. In contrast, Staff and AG/CUB each propose a rate design that is contrary to recent Commission decisions. The Company also proposes five new riders that seek to better track key cost drivers, improve system integrity, or encourage energy efficiency. Staff, though, does not support any of these riders, including the Company's proposed energy efficiency rider.

In conclusion, the evidence demonstrates that Nicor Gas' proposed rate increase, rate design and riders are reasonable and should be adopted.

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[1] See attached Exhibit 1, which identifies and quantifies the Staff and AG/CUB proposed adjustments to the Company's proposed revenue requirement.

II. OVERALL REVENUE REQUIREMENT AND REVENUE DEFICIENCY

As reflected in Section I, the Company's test year overall base rate revenue requirement is $688,203,000, but will recover only $547,280,000 under current rates. Accordingly, the Company proposes a rate increase of $140,923,000 in order to recover the test year revenue deficiency.

III. TEST YEAR

Nicor Gas has proposed the use of a forecasted 2009 test year. No party has objected to the proposed test year.

IV. RATE BASE

A. OVERVIEW

B. UNCONTESTED ISSUES

C. CONTESTED ISSUES

1. NORTHERN REGION REPORTING CENTER

Issue: Should the Company's proposed Northern Region Reporting Center project ("NRRC") be included in the Company's test year rate base?

Amount: The estimated cost of the NRRC is $12,500,000. However, the Company seeks to include $6,250,000 in rate base in this proceeding because it is using an average rate base for 2009.

Witnesses: Nicor Gas witness D'Alessandro testified that the proposed NRRC is needed and will be used to replace a leased facility in Park Ridge, Illinois and a leased Meter Reading facility in Niles, Illinois. He testified that the Park Ridge facility is inadequate to meet current and future needs. Mr. D'Alessandro also stated that the NRRC will be completed and in use before the end of 2009, and placed into service prudently and at reasonable cost. (D'Alessandro Dir., Nicor Gas Ex. 3.0, 24:505-25:541; D'Alessandro Reb., Nicor Gas Ex. 18.0, 24:509-25:541; D'Alessandro Sur., Nicor Gas Ex. 37.0, 3:62-10:232).

Staff witness Maple testified that the Company has not demonstrated a need for the NRRC, and states that the proposed facility will not be completed and in service before the end of 2009. (Maple Reb., Staff Ex. 23.0, 3:31-32).

2. CASH WORKING CAPITAL

Issue: Staff proposes two adjustments to the Company's Cash Working Capital ("CWC") proposals. First, Staff seeks to apply a zero revenue lag for pass-through taxes. Second, Staff criticizes the need for the CWC to reflect a balance between revenues and expenses.

Amount: Nicor Gas proposes that its CWC test year requirement is $87,544,000, which is included in rate base. Staff's proposed adjustment to the CWC requirement would reduce rate base by $25,055,000, and the Company's annual revenue requirement by $3,944,000.

Witnesses: Staff witness Kahle proposes a reduction in rate base to reflect his corrections to the CWC. (Kahle Dir., Staff Ex. 1.0, 7:143-11:277; Kahle Reb., Staff Ex.14.0, 5:98-12:255)

Nicor Gas witness Adams explains why Mr. Kahle's suggested adjustments to Mr. Adams' CWC analysis should be rejected. Mr. Adams further explains that the Commission has rejected the <u>identical</u> Staff adjustment twice this year, in the Peoples Gas rate case and the Ameren Utilities rate cases. (Adams Reb., Nicor Gas Ex. 23.0, 2:35-10:210; Adams Sur., Nicor Gas Ex. 42.0, 2:29-12:224)

3. GAS IN STORAGE

Issue: What is the appropriate calculation for the working gas in storage component of rate base?

Amount: Nicor Gas has calculated working gas in storage for the test year at $95,645,000. AG/CUB witness Effron recommends a net reduction to the Company's proposed working gas in storage component of $29,286,000. Mr. Effron's proposal would result in a $4,610,000 reduction in the Company's proposed annual revenue requirement.

Witnesses: Nicor Gas witness Gorenz explained that the figure of $95,645,000 for Gas in Storage represents a 13-month average of gas stored in the Company's owned and leased facilities, net of an adjustment for accounts payable. The adjustment for accounts payable is consistent with past Commission practice (*e.g.*, Docket No. 04-0779 and No. 95-0219). (Nicor Gas Ex. 11.1, Schs. B-1 and B-1.1)

AG/CUB witness Effron testified that the forecasted balance of gas in storage for the test year is "significantly higher" than actual recent balances. He recommends using his alternative month-end volumetric balances, resulting in a gas in storage balance, net of payables, of $66,359,000, (AG/CUB Exhibit 3.1, Schedule B-3) whereas Nicor Gas' proposed gas in storage balance, net of payables, is $95,645,000 (Section 285.2005 WP (B-1.1) 1). (Effron Reb., AG/CUB Ex. 4.0, 4:14-6:16).

Nicor Gas witness Bartlett disagrees with Mr. Effron's proposed alternative storage field month end volumetric balances, and explains those factors that Mr. Effron failed to consider in his determinations. Mr. Bartlett demonstrates how actual storage field operations over recent multi-year periods supports the Company's test year forecast for month-end working gas in storage volumes used to compute this rate base component. (Bartlett Reb., Nicor Gas Ex. 19.0, 3:77-7:161; Bartlett Sur., Nicor Gas Ex. 38.0, 3:78-9:199).

4. PENSION ASSET

Issue: Whether to include the Pension Asset in rate base.

Amount: Staff's and AG/CUB's proposed removal of the pension asset from rate base results in a revenue requirement decrease of $22,274,000 and $22,355,000, respectively.

Witnesses: Nicor Gas witness Gorenz explains that the Company is seeking to include in rate base $142,044,000 related to net pension assets. This reflects investments made by the Company in a pension trust in compliance with its obligations under its defined benefit pension plan. While the Commission did not include this asset in the Company's 2004 Rate Case, there are issues currently on appeal from a ComEd rate case which may impact whether this asset should be included in rate base. Accordingly, in order to preserve its rights, the Company is proposing inclusion of this asset in rate base. (See Gorenz Dir., Nicor Gas Ex. 11.0, 15:336-17:371; Gorenz Reb., Nicor Gas 26.0, 20:426-24:515; Gorenz Sur., Nicor Gas Ex. 45.0, 6:118-124)

Staff witness Hathhorn and AG/CUB witness Effron each propose to eliminate the pension asset from rate base. Both witnesses rely on the Commission's decision in the Company's 2004 Rate Case to support their disallowance. (Hathhorn Dir., Staff Ex. 2.0, 3:56-10:221; Hathhorn Reb., Staff Ex. 15.0, 3:67-8:172; Effron Dir., AG/CUB Ex. 1.0, 13:13-15:15; Effron Reb., AG/CUB Ex. 4.0, 6:18-7:4)

5. GROSS PLANT

Issue: Whether the Commission should adopt Staff's proposal to reduce gross plant by 2.87%.

Amount: Staff's proposal would reduce the Company's annual revenue requirement by $1,499,000.

Witnesses: Staff witness Ostrander proposes to reduce the Company's 2008 and 2009 estimated plant additions by 2.87% for each year. His adjustment is based on a comparison of the Company's annual forecast for plant additions to the actual expenditure for the past four years, 2004-2007. (Ostrander Dir., Staff Ex. 4.0, 3:53-4:74; Ostrander Reb., Staff Ex. 17.0, 3:50-4:80).

Nicor Gas witness D'Alessandro testifies that the Company's forecasts have been remarkably accurate and should be used. However, if one wants to use Staff's proposal, it must be corrected. When corrected, rather than an average variance of 2.87% over the four year period, the variance is only 0.52%. (D'Alessandro Reb., Nicor Gas Ex. 18.0, 9:201-10:226; D'Alessandro Sur., Nicor Gas Ex. 37.0, 12:272-14:312).

6. ACCUMULATED RESERVE FOR DEPRECIATION AND AMORTIZATION

Issue: What is the appropriate level of accumulated depreciation and amortization ("depreciation reserve")?

Amount: Nicor Gas determined the test year amount to be $2,694,389,000. AG/CUB proposes a $4,940,000 adjustment to the average test year depreciation reserve for budgeted net removal costs. Staff proposes an adjustment of $495,000, with a resulting accumulated depreciation figure of $2,693,959,000.

Witnesses: Nicor Gas witness Gorenz presented the Company's calculation of the depreciation reserve, which is determined by taking actual balances as of December 31, 2007 and adjusting for both 2008 and 2009 depreciation and amortization, retirements, removal cost and salvage, and transfers. (Gorenz Dir., Nicor Gas Ex. 11.1, Sch. B-6). He explains why Mr. Effron's adjustments to 2008 and 2009 budgeted net removal costs are incorrect. (Gorenz Dir., Nicor Gas Ex. 11.0, 14:298-15:317; Gorenz Reb., Nicor Gas Ex. 26.0, 16:339-19:401; Gorenz Sur., Nicor Gas Ex. 45.0, 15:325-17:362).

AG/CUB witness Effron proposed adjustments to the Company's calculation are based upon his disagreement with the calculation of budgeted net removal costs. He states that the projected 2008 and 2009 expenditures related to the cost of removing and retiring plant is out of line with actual experience. He recommends that the budgeted removal costs be reduced by $3,385,000 for 2008 and $3,108,000 for 2009. The resulting recommended adjustment to the average test year depreciation reserve is $4,940,000. (Effron Dir., AG/CUB Ex. 1.0, 7:11-9:17; Effron Reb., AG/CUB Ex. 4.0, 2:11-3:12).

Staff witness Ostrander seeks to reduce the test year depreciation reserve, the adjustment being a derivative of his inappropriate but proposed reduction to plant additions based upon his analysis of historical budget to actual spending and Staff witness Maple's inappropriate but proposed disallowance of certain facility additions. Mr. Ostrander also opines that if Rider QIP and test year acceleration are not approved (he has no opinion on the merits of either), then the AG/CUB suggested adjustment for increased costs of removing retired plant are appropriate for test year. (Ostrander Dir., Staff Ex. 4.0, 3:41-4:74, Schs. 4.01 and 4.02; Ostrander Reb., Staff Ex. 17.0, 2:33-7:143, Schs. 17.01 and 17.02).

7. INCENTIVE COMPENSATION

8. OTHER

V. OPERATING EXPENSES

A. OVERVIEW

B. UNCONTESTED ISSUES

1. INCENTIVE COMPENSATION

Issue: At-fault hit ratio.

Amount: N/A

Witnesses: The Company accepts Staff's proposal adjustment on this issue. (Gorenz Sur., Nicor Gas Ex. 45.0, 4:86-5:94; Hathhorn Reb., Staff Ex. 15.0, 11:244-12:253).

2. PENSION ASSET – CREDIT

Issue: None.

Amount: $7,972,000 credit (reduction) to the annual revenue requirement.

Witnesses: Company witness Gorenz proposes that the test year pension credit, as adjusted, is $7,972,000. (Gorenz Reb., Nicor Gas Ex. 26.0, 32:688-36:778). Neither Staff nor any other party object to this proposal.

3. ENVIRONMENTAL EXPENDITURES

Issue: None.

Amount: The ultimate agreed-upon expense is $564,400 for the disposal of polychlorinated biphenyls ($282,200 charged to OO&M expense and $282,200 charged for removal/retirement expense).

Witnesses: Nicor Gas witness Gorenz and Staff witness Jones testify regarding this issue. (Staff Ex. 3.0, 20:355-21:370, Staff Ex. 16.0, 11:190-12:206).

4. INVESTED CAPITAL TAXES

Issue: None.

Amount: N/A

Witnesses: (*See* Gorenz Reb., Nicor Gas Ex. 26.0, 49:1070-51:1103; Hathhorn Reb., Staff Ex. 15.0, 3:57-64)

5. PROMOTIONAL EXPENSES

Issue: None.

Amount: $264,000 in revenue requirement.

Witnesses: Staff witness Jones, AG/CUB witness Effron, and Nicor Gas witness Gorenz presented testimony regarding this issue. The Company accepted Staff's and AG/CUB's proposal to remove these expenses from the proposed revenue requirement. (Staff Ex. 3.0, 12:216-16:279; AG/CUB Ex. 1.0, 27:14-28:11; Nicor Gas Ex. 26.0, 29:639-32:687).

6. TRAINING/SEMINAR EXPENSES/ECONOMIC

Issue: None.

Amount: $496,000 in revenue requirement.

Witnesses: Staff witness Jones and Nicor Gas witness Gorenz presented testimony regarding this issue. The Company accepted Staff's proposal to remove these expenses from the proposed revenue requirement. (Jones Dir., Staff Ex. 3.0, 16:283-18:325; Gorenz Reb., Nicor Gas Ex. 26.0, 30:643-32:687).

7. MEMBERSHIP DUES

Issue: None.

Amount: $128,000 in annual revenue requirement.

Witnesses: Staff witness Jones and Nicor Gas witness Gorenz presented testimony regarding this issue. The Company accepted Staff's proposal to remove this expense from the proposed revenue requirement. (Jones Dir., Staff Ex. 3.0,18:326-20:353; Gorenz Reb., Nicor Gas Ex. 26.0, 29:639-31:687).

C. CONTESTED ISSUES

1. INCENTIVE COMPENSATION COSTS AND EXPENSES

Issue: Whether the Company should recover the costs associated with Incentive Compensation Unit ("ICU") expense?

Amount: This issue has a $325,000 impact on the Company's annual revenue requirement.

Witnesses: Company witness Bacidore discusses why the ICU expense is reasonable and should be recovered. She further explains that the Commission has approved ICU-related expenses in numerous prior Company rate cases. (Bacidore Reb., Nicor Gas Ex. 22.0; 2:26-37; Bacidore Sur., Nicor Gas Ex. 41.0, 2:27-3:62).

Staff witness Hathhorn proposes to disallow ICU-related expenses (Hathhorn Dir., Staff Ex. 2.0, 11:241-12:252, 13:279-14:291; Hathhorn Reb., Staff Ex. 15.0, 10:206-11:242).

2. UNCOLLECTIBLE ACCOUNTS EXPENSE

Issue: What is the appropriate Uncollectible Expense calculation?

Amount: Nicor Gas' proposes a test year Uncollectible Accounts expense of $68,311,000. Staff proposes to reduce the expense by $6,981,000. AG/CUB proposes to reduce the Company's expense by $13,265,000.

Witnesses: Nicor Gas witness James Gorenz testified that Uncollectible Expense for the 2009 test year is forecasted to be $68,311,000, or 2.25% of total test year revenues of $3,036,129,000. (Gorenz Dir., Nicor Gas Ex. 11.1, Sch. C-1, Col. D). He further testifies regarding the success of the forecasting techniques for Uncollectible Expense in the Company's last rate case, and that the 2.25% rate will reflect test year conditions more closely than either Staff or AG/CUB's proposed rates. (Gorenz Reb., Nicor Gas Ex. 26.0, 36:779-38:833; Gorenz Sur., Nicor Gas Ex. 45.0, 6:132-8:165).

Nicor Gas witness Kirby explains the Company's experience with charge-off and the factors contributing to an increasing trend in the charge-off rate. Mr. Kirby describes the Company's collection efforts and programs to assist customers who are experiencing difficulties in paying their gas bills. (Kirby Dir., Nicor Gas Ex. 6.0, 18:383-19:404; Kirby Reb., Nicor Gas Ex. 21.0, 17:366-22:478).

Staff witness Hathhorn proposes to lower the uncollectible expense percentage from 2.25% to 2.02%, which considers 2007 information. The proposal is based on 2008 actual (first 5 months) and 7 months projected. Meanwhile, Ms. Hathhorn rejects AG/CUB witness Effron's recommended uncollectible expense percentage of 1.80%. (Hathhorn Dir., Staff Ex. 2.0, 10:223-11:239; Hathhorn Reb., Staff Ex. 15.0, 9:1898:175-94).

AG/CUB witness Effron proposes to use 1.80% as the appropriate percentage to calculate uncollectible expense. Mr. Effron believes that this percentage more accurately reflects the Company's actual experience. Using an averaging methodology of two years ('06 and '07), which he believes provides a "more than adequate" representation of any upward trend, he proposes that uncollectible expense be reduced by $13,265,000. (AG/CUB Ex. 1.0, 22:11-25:3; AG/CUB Ex. 4.0, 10:21-11:17).

3. RATE CASE EXPENSE

Issue: How long should the amortization period be for the Company to recover its rate case expense?

Amount: The difference between the Company's three year amortization period and Staff's four year amortization period is a $542,000 reduction to the annual revenue requirement under Staff's proposal.

Witnesses: There is no issue concerning the amount of rate case expense. Staff witness Jones proposes to amortize the recovery of rate case expense over a four year period, instead of the Company's proposed three year period, reasoning that proposed Riders VBA and EEP are four year pilot programs. (Jones Dir., Staff Ex. 3.0, 5:75-86; Jones Reb., Staff Ex. 16.0, 2:32-4:73).

Nicor Gas witness Gorenz explains why a three year amortization period is appropriate. He further notes that Ms. Jones' reasoning appears to conflict with Staff's position on the proposed Riders, as Staff proposes the rejection of Riders VBA and EEP. (Gorenz Reb., Nicor Gas Ex. 26.0, 38:834-40:884; Gorenz Sur., Nicor Gas Ex. 45.0, 14:296-306).

4. PAYROLL/HEADCOUNT

Issue: What is the appropriate level of payroll/headcount expense?

Amount: AG/CUB seeks to reduce the Company's payroll/headcount expenses, which has a $2,866,000 impact on the Company's annual revenue requirement.

Witnesses: AG/CUB witness Effron propose to reduce 106 headcount from the average number of employees for 2009. The reduction is based upon the average difference between authorized employees and actual employees in 2008. (Effron Dir., AG/CUB Ex. 1.0, 18:19-21:3, Ex. 1.1

Sch. C-2.1). Mr. Effron, in rebuttal, reduces his proposed adjustment to test year payroll expense by $1,636,000 in response to information regarding new employee numbers and to avoid the possibility of double-counting suggested employee reductions. (Effron Reb., AG/CUB Ex. 4.0, 9:5-10:19, Sch. C-2.1).

Nicor Gas witness D'Alessandro presented testimony regarding the Company's headcount needs, reasons for position vacancies and the impact of overtime, contractors and consultants on the budgeted headcount equivalents. (D'Alessandro Reb., Nicor Gas Ex. 18.0, 12:261-14:327). In surrebuttal testimony, Mr. D'Alessandro explains that Mr. Effron's headcount proposal assumes an employee level below the Company's actual October 31, 2008 headcount level. (D'Alessandro Sur., Nicor Gas Ex. 37.0, 14:313-16:353).

Staff witness Hathhorn disagrees with Effron's proposed adjustment to payroll expense. She believes the Company's test year headcount is reasonable. (Hathhorn Reb., Staff Ex. 15.0, 12:255-63).

5. MAINS & SERVICES EXPENSES

Issue:: What is the appropriate amount of expense attributable to Mains and Services?

Amount: Nicor Gas included $23,768,000 for the test year. AG/CUB witness Effron testimony ultimately proposes to reduce Account 874 expenses by $1,352,000. Staff does not propose an adjustment to Nicor Gas' stated expenses.

Witnesses: AG/CUB witness Effron testifies that the Company failed to identify any particular factors that would explain a 28% increase over actual expense in 2007. He proposes to limit the increase in expense to 5% per year saying that it is "more than adequate" to allow for inflation and normal growth. (Effron Dir., AG/CUB Ex. 1.0, 25:5-26:2, Effron Reb., AG/CUB Ex. 4.1, Sch. C-2).

Nicor Gas witness Gorenz explains that approximately $2,000,000 of the increase resulted from the reclassification of costs to this account from accounts 876, 890, 892, and 893. (Gorenz Reb., Nicor Gas Ex. 26.0, 44:956-71). Nicor Gas witness McCain provided testimony in support of each of the remaining expense increases within Account 874, explaining the need and reasonableness of each expenditure relating to labor and contractor costs. (McCain Reb., Nicor Gas Ex. 20.0, 10:209-11:243; McCain Sur., Nicor Gas Ex. 39.0, 7:155-8:175).

Staff witness Ostrander disagrees with Mr. Effron's adjustment to the Company's proposed mains and services expenses. (Ostrander Reb., Staff Ex. 17.0, 7:144-8:167).

6. CUSTOMER RECORDS & COLLECTION EXPENSES

Issue: What is the appropriate amount of expense related to Account 903 - Customer Records and Collections?

Amount: The Company seeks to recover for $37,647,000 for the 2009 test year. CUB/AG seeks an adjustment of $3,035,000. Staff does not think an adjustment to stated expenses are needed.

Witnesses: Nicor Gas witness Kirby explained the major components of Customer Care expenses and Account 903 expenses, and testified that the expenses are reasonable and prudently incurred. He stated that the elimination of the "summer billing" program will result in customers receiving twelve bills per year rather than six mailings per year, and that corresponding billing cost increases will be related to postage, forms, and labor expense. (Kirby Dir., Nicor Gas Ex. 6.0, 8:170-11:240; Kirby Reb., Nicor Gas Ex. 21.0, 7:157-12:261; Kirby Sur., Nicor Gas Ex. 40.0, 6:136-7:149).

AG/CUB witness Effron accepts the postage increase for monthly billing, but seeks to allow only a 5% annual increase to account for inflation and system growth. He does not believe that the Company has established that the described increases will actually be taking place from 2007 to 2009 with any degree of certainty. (Effron Dir., AG/CUB Ex. 1.0, 26:4-27:12; Effron Reb., AG/CUB Ex. 4.0, 12:16-20).

Staff witness Kahle rejects Mr. Effron's proposed adjustment to customer records and collections expense. (Kahle Reb., Staff Ex. 14.0, 12:256-13:287).

7. CHARITABLE CONTRIBUTIONS

(a) AURORA FOUNDATION

Issue: Should Nicor Gas' contributions to the Aurora Foundation be allowed as a Charitable Contribution Expense?

Amount: $100,000. Staff recommends disallowing the entire contribution.

Witnesses: Staff witness Burma Jones has objected to recovery of $100,000 in charitable contributions to the Aurora Foundation for merit-based scholarship to the children of Nicor Gas employees, on the grounds that the contributions are a benefit to Nicor Gas employees. (Jones Dir., Staff Ex. 3.0, 6:106-7:125). Rebecca Bacidore testified that Section 9-227 of the Public Utility Act allows the Commission to consider such donations as a recoverable expense, and the fact that the scholarship is available only to children of Nicor Gas employees does not place the contributions beyond the scope of Section 9-227. (Bacidore Reb., Nicor Gas Ex. 22.0, 3:65-4:79).

(b) SALVATION ARMY - CHICAGO

Issue: Should Nicor Gas' matching contribution for its Sharing program be allowed as a Charitable Contribution Expense?

Amount: The amount of the expense is $220,000. Staff witness Jones recommends disallowing the entire amount.

Witnesses: Staff witness Jones argues that to allow the Company to include amounts contributed as a match to its customers' donations would amount to ratepayers paying twice for their generosity. She states that the failure of Staff to raise the issue of whether Peoples' Share the Warmth program was recoverable does "not act as a bar to the issue being raised in the future." (Jones Dir., Staff Ex. 3.0, 7:126-9:159; Jones Reb., Staff Ex. 16.0, 6:106-10:172).

Nicor Gas witness Kirby testified that Nicor Gas' Sharing Program is a long-standing program with demonstrated benefits to financially-challenged customers, and that Nicor Gas is committed to its support of the program regardless of the level of customer donations. He questioned the disallowance of Sharing Program contributions when similar programs were listed as a Charitable Contributions expense by other utilities. (Kirby Reb., Nicor Gas Ex. 21.0, 13:265-15:312; Kirby Sur., Nicor Gas Ex. 40.0, 4:86-6:135).

8. DEPRECIATION AND AMORTIZATION EXPENSES

Issue: This issue addresses depreciation and amortization expense adjustments resulting from other proposed rate base adjustments.

Amount: Dependent on rate base decisions.

Witness: While there is disagreement regarding proposed rate base adjustments, it appears that the Company and Staff agree on the calculations necessary to adjust depreciation and amortization expenses. (Gorenz Reb. Nicor Gas Ex. 26.0, 45:976-46:1010; Ostrander Reb., Staff Ex. 17.0, 3:47-49).

9. TAXES OTHER THAN INCOME TAXES

Issue: None

Amount: N/A

Witnesses: The Company has agreed to adjust its Taxes Other Than Income Taxes to reflect 3 proposed adjustments from Staff and/or AG/CUB. (Gorenz Reb., Nicor Gas Ex. 26.0, 47:1011-48:1041).

10. INCOME TAXES

Issue: The proper calculation of income tax expense.

Amount: Depends on revenue requirement-related decisions.

Witnesses: Nicor Gas witness Gorenz (Gorenz Reb., Nicor Gas Ex. 26.0, 48:1043-1050).

11. INTEREST SYNCHRONIZATION

Issue: None

Amount: N/A

Witnesses: No issue as to methodology. (Gorenz Reb., Nicor Gas Ex. 26.0, 48:1052-49:1059).

VI. RATE OF RETURN

A. UNCONTESTED ISSUES

No party has contested the Company's proposed embedded cost of long-term debt of 6.80% or its embedded cost of preferred stock of 4.77%. (Ruschau Reb., Nicor Gas Ex. 24.1; Freetly Reb., Schedule 18.1).

B. CAPITAL STRUCTURE (INCLUSION OF SHORT-TERM DEBT)

1. INCLUSION OF SHORT-TERM DEBT

Issue: What is the appropriate capital structure for the Company for purposes of establishing Nicor Gas' authorized rate of return.

Amount: Staff's proposed capital structure results in a $24,666,000 reduction to the Company's annual revenue requirement. AG/CUB's proposed capital structure results in a $24,561,000 reduction to the Company's annual revenue requirement.

Witnesses: Nicor Gas witness Ruschau proposed a test year capital structure of 56.77% common equity, 0.12% preferred stock, and 43.11% long-term debt. (Ruschau Reb., Nicor Gas Ex. 24.1). Mr. Ruschau states that the proposed test year capital structure is essentially identical to the capital structure approved by the Commission in Nicor Gas' 1987, 1995 and 2004 rate cases. (*Id*., 7: 157-64). Staff witness Freetly proposes a hypothetical test year capital structure of 46.36% common equity, 0.10% preferred stock, 35.22% long-term debt and 18.32% short-term debt. (Freetly Reb., Staff. 18.0C, Sch. 18.1). Nicor Gas opposes the inclusion of short-term debt in its capital structure, as proposed by Staff. (Ruschau Reb., Nicor Gas Ex. 24.0, 8:165-72). On rebuttal, CUB witness Thomas adopts Staff's short-term debt adjustment. (Thomas Reb., CUB Ex. 2.0, 13:255-67).

2. ADJUSTMENTS TO OTHER CAPITAL COMPONENTS BASED ON THE CALCULATION OF AFUDC BALANCES

Issue: Whether to adjust Nicor Gas' other capital component balances based on the calculation of Allowance for Funds Used During Construction ("AFUDC") balances.

Amount: Staff proposes to reduce rate base by $8,081,027. (Freetly Reb., Staff Ex. 18.0C, 2:35-3:47, Sch. 18.2).

Witnesses: For May-June 2009, Staff witness Freetly subtracts proportionate amounts of long-term debt, preferred stock and common equity from rate base which Staff asserts the AFDUC formula assumes is financing Construction Work in Progress ("CWIP"). (Freetly Reb., Staff Ex. 18.0C, 13:277-14:297). Nicor Gas witness Ruschau asserts that these adjustments are unnecessary and result from Staff's proposal to impute short-term debt into the Company's capital structure. (Ruschau Reb., Nicor Gas Ex. 24.0, 26:559-27:582; Ruschau Sur., Nicor Gas Ex. 43.0, 14:314-325).

C. COST OF SHORT-TERM DEBT

Issue: What is Nicor Gas' cost of short-term debt, assuming the Commission adopts a hypothetical capital structure that includes a short-term debt component in Nicor Gas' capital structure for ratemaking purposes.

Amount:

Witnesses: Staff witness Freetly proposes a test year cost of short-term debt of 2.50%, including bank commitment fees. (Freetly Reb., Staff Ex. 18.0C, 15: 299-16: 325). In the event the Commission were to include short-term debt in its capital structure, Nicor Gas witness Ruschau recommends a test year cost of short-term debt of 3.72%. (Ruschau Reb., Nicor Gas Ex. 24.0, 24:513-25: 558).

D. COST OF COMMON EQUITY

1. ROE CALCULATION

Issue: What is the fair rate of return on common equity ("ROE") for Nicor Gas.

Amount: Staff proposed ROE results in an annual revenue requirement reduction of $19,009,000. AG/CUB's proposed ROE results in an annual revenue requirement reduction of $22,056,000.

Witnesses: Nicor Gas witness Makholm recommends an 11.15% ROE. (Makholm Reb., Nicor Gas Ex. 25.0, Ex. 25.1). His proposed ROE reflects the average of a discounted cash flow ("DCF") estimate of 10.37% and a capital asset pricing model ("CAPM") estimate of 11.93%. (*Id.*) Dr. Makholm employs the same ROE methodology adopted by the Commission in Nicor Gas' 2004 Rate Case. Staff witness Kight-Garlisch makes two ROE recommendations: 9.68% or 10.07%. (Kight-Garlisch Reb., Staff Ex. 19.0, 12:197-13:234). Using both raw and adjusted beta estimates, Ms. Kight-Garlisch proposes a 9.68% ROE based upon the average of her DCF (9.25%) and CAPM (10.60%) calculations, with a proposed 25 basis point risk-related reduction. (*Id.*). In the alternative, Ms. Kight-Garlisch presents an ROE using only adjusted beta estimates. Specifically, she proposes a 10.07% ROE based upon the average of her DCF (9.25%) and CAPM (11.39%) calculations, less her proposed 25 basis point reduction. (*Id.*). CUB witness Thomas proposes a 9.455% ROE. (Thomas Reb., CUB Ex. 2.0, 2:29-32).

2. EFFECT OF PROPOSED RIDERS

Issue: Whether Nicor Gas' ROE should be reduced, in the event the Commission approves certain riders proposed by the Company in this proceeding.

Amount: Dependent upon Commission decision on rate base.

Witnesses: Staff witness Kight-Garlisch recommends a 13 basis point reduction in Nicor Gas ROE in the event the Commission were to approve Nicor Gas' proposed Rider VBA and Rider UEA. (Kight-Garlisch Dir., Staff Ex. 6.0C, 25:485-30:599). CUB witness Thomas recommends a 58 basis point reduction in ROE in the event the Commission approves Rider VBA (25 basis points), Rider UEA (25 basis points) and Rider CUA (8 basis points). (Thomas Dir., CUB Ex. 1.0, 31:776-38:956). Nicor Gas witness Makholm opposes the proposed adjustments on the basis that the billing mechanisms contained in the proposed riders have no effect on ROE. (Makholm Reb., Nicor Gas. Ex. 25.0, 25:556-36:797; Makholm Sur., Nicor Gas Ex. 44.0, 13:288-16:355).

E. OVERALL COST OF CAPITAL (DERIVATIVE)

Issue: What is Nicor Gas' appropriate overall rate of return.

Amount: Staff's proposed overall test year rate of return would reduce the Company's annual revenue requirement by $43,682,000. AG/CUB's proposed overall test year rate of return would reduce the Company's annual revenue requirement by $46,177,000.

Witnesses: Based upon (a) the Company's proposed capital structure, (b) its estimated cost of equity, and (c) its proposed embedded cost of long-term debt and preferred stock (which are uncontested), Nicor Gas proposes an overall rate of return on rate base of 9.27%. (Ruschau Sur., Nicor Gas Ex. 43.1). Staff recommends an overall rate of return of 7.35%. (Freetly Reb., Staff Ex. 18, 16:328). This recommendation includes only the lower of Staff's alternative ROE proposals presented on rebuttal. (*Id.*, 16:328-29). CUB recommends an overall rate of return of 7.25%, which reflects CUB's adoption on rebuttal of Staff's proposal to include short-term debt in Nicor Gas' capital structure. (Thomas Reb., CUB Ex. 2.0, 14:279-80).

VII. COST OF SERVICE AND ALLOCATION ISSUES

A. OVERVIEW

In the 2004 Rate Case the residential customer class was assigned 95% of its cost of service. In an effort to gradually move the residential class closer to its costs of service, the Company proposes to assign the residential customer class 97.5% of its costs of service. (Mudra Dir, Nicor Gas Ex. 14.0, 10:222-26). The Company considered the principle of gradualism, the impact of the proposed increase on ratepayers and the volatility of natural gas prices in developing its allocation proposal. (Mudra Reb., Nicor Ex. 29.0, 6:123-7:152). Other than IIEC, no other party has an outstanding contested issue with the Company's Embedded Cost of Service Study ("ECOSS") or allocations.

B. UNCONTESTED ISSUES

1. ALLOCATION FACTOR BASED ON SERVICES INVESTMENT BY CUSTOMER CLASS.

The Company agreed to Staff's proposal that it prepare in its next rate filing an allocator within its ECOSS for gas service lines that reflect the level amount of investment in services by customer class. (Mudra Sur., Nicor Ex. 48.0, 4:83).

2. ALLOCATION OF STORAGE LOSSES

IIEC identified corrections to the ECOSS where storage losses were inadvertently assigned to transportation customers. (Rosenberg Reb., IIEC Ex. 2.01, 8:164-13:259). In its surrebuttal testimony the Company removed from its ECOSS any allocation of storage losses to transportation customers. (Heintz Sur., Nicor Gas Ex. 49.0, 2:273:50).

C. CONTESTED ISSUES

1. MAIN SIZE ALLOCATION

Issue: Should there be a reallocation of volume-related costs within the ECOSS based on the demand allocation factors contained in the Company's MDM.

Amount: This issue would reallocate $8,300,000 in costs from commercial customers to residential customers.

Witnesses: IIEC proposes to additionally reallocate volume related costs based upon the main size allocation factors from the Company's MDM study. (Rosenberg Dir., IIEC Ex. 1.0, 6:107-7:129; Rosenberg Reb., IIEC Ex. 2.0, 20:423-25:522). The Company explained that its MDM study was prepared precisely in the same manner as it was in its last two rate cases. (Mudra Sur., Nicor Gas Ex. 48.0, 4:90-5:100). The Company revealed why IIEC's position may not necessarily be accurate and why a study should be performed. (Mudra Sur., Nicor Gas Ex. 48.0, 5:109-7:160). Moreover, the practical effect of IIEC's proposal is to further increase residential rates and decrease commercial and industrial rates. (Mudra Reb., Nicor Ex. 29.0, 4:83-85). The Company suggests the Commission may want to test the accuracy of the proposal before it shifts $8,300,000 to the residential rate class. (Mudra Sur, Nicor Gas Ex., 48.0, 6:132-42). The Company proposes to review the IIEC suggested allocation methodology and present its conclusion in its pre-filed testimony in its next rate proceeding. (Mudra Reb., Nicor Ex. 29.0, 4:76-88; Mudra Sur., Nicor Gas Ex. 48.0, 7:154-60).

2. ALLOCATION OF STORAGE COSTS TO UNBUNDLED RATE CLASSES

Issue: Is it appropriate for unbundled rate customers to avoid paying for storage costs they are entitled to select?

Amount: $11,000

Witnesses: IIEC witness Rosenberg suggests that the Company simply assign transportation customers the same storage costs as is reflected in the presumptive SBS. (Rosenberg Reb., IIEC Ex. 2.01, 8:164-13:259). Nicor Gas has shown that, in total, more storage costs have been removed from Transportation customer rates than allocated within the ECOSS, and that storage costs have been properly removed from transportation service charges based on the amount of storage purchased leaving only $11,000 in Rate 77. Furthermore, Nicor Gas has shown that Transportation customers traditionally purchase all of their SBS Entitlement and can be expected to do so in the future. Nicor Gas disagrees with IIEC's remedy for further changes at this time.

Rather, transportation service charges have been properly established at this time, but Nicor Gas agrees to review the issue again during its next rate filing. (Mudra Reb., Nicor Ex. 29.0, 29:648-32:708).

D. INTERCLASS ALLOCATION ISSUES

1. RATE 1 ALLOCATION

Issue: Should the residential rate class move to 100% of its cost of service or should the Commission continue to employ the principle of gradualism as proposed by Nicor Gas.

Amount: A move to 100% cost of service assignment would increase residential rates by an additional $12,000,000, and reduce the impact to non-residential customers by an equal amount.

Witnesses: Nicor Gas has proposed to move the residential customer class revenue allocation closer to its costs of service by moving from 95% to 97.5% of the residential customer class cost of service. (Mudra Dir, Nicor Gas Ex. 14.0, 10:222-29; Mudra Reb., Nicor Gas Ex. 29.0, 5:109-6:118; Mudra Sur, Nicor Gas Ex. 48.0, 7:161-10:223). IIEC claims Nicor Gas neglects it Embedded Cost of Service Study ("ECOSS") by not moving to 100% of its cost of service and therefore extending a Rate 1 subsidy. (Rosenberg Dir., IIEC Ex. 1.0, 2:30-31). IIEC's proposal would further increase residential rates and decrease commercial and industrial rates by $12,000,000. While narrowing the cross subsidy gap, Nicor Gas recognizes its proposed interclass allocation will not eliminate interclass rate subsidies. Nicor Gas proposes to eliminate the cross subsidy in its next general rate case. (Mudra Sur, Nicor Gas Ex., 48.0, 9:191-94).

VIII. RATE DESIGN

A. OVERVIEW

Nicor Gas asks the Commission to approve its interclass allocation and rate design, which reflects traditional ratemaking principles such as cost-causation and gradualism. To meet its rate design objectives, Nicor Gas relied upon the results of the ECOSS, which properly assigned costs to the customer rate classes causing the costs. The ECOSS determined the appropriate level of revenue requirement needed to achieve an equalized rate of return by rate class. The Company then utilized the results of the ECOSS to move the existing rates closer to cost of service. In addition to Rate 1 (Residential Service), Nicor Gas has four sets of "companion" non-residential rates as follows:

- Rate 4 – General Service and Rate 74 – General Transportation Service
- Rate 5 – Seasonal Use Service and Rate 75 – Seasonal Use Transportation Service
- Rate 6 – Large General Service and Rate 76 – Large General Transportation Service
- Rate 7 – Large Volume Service and Rate 77 – Large Volume Transportation Service.

B. UNCONTESTED ISSUES

1. RATE 6 AND RATE 76 DESIGN

Issue: Whether the Commission should approve Nicor Gas' proposed rate design for Rate 6 and Rate 76.

Amount: There is no dollar amount associated with Rate 6 and Rate 76 Design.

Witnesses: Nicor Gas witness Mudra discusses how the rate design for Rates 6 and 76 was developed. (Mudra Dir., Nicor Gas Ex. 14.0, 22:476-85). No party presented testimony regarding the Company's proposed rate design for Rates 6 and 76. However, Staff witness Lazare submitted proposed changes to the charges for Rates 6 and 76 in Staff Exhibits 7.04 and 7.06. It appears that Mr. Lazare proposes to establish the monthly customer charge to only recover customer costs from the ECOSS and then increase the single distribution charge.

C. CONTESTED ISSUES

1. RATE 1 DESIGN

Issue: Whether the Commission should allow Nicor Gas to recover more of its fixed charges through its customer charge rather than through volumetric charges.

Amount: There is no dollar amount associated with Rate 1 Design.

Witnesses: Nicor Gas witness Mudra discusses the two primary changes proposed by Nicor Gas with respect to its Rate 1 customer class: (1) an increase in the Monthly Customer Charge to $13.55; and (2) elimination of the existing second block of $.0579 per therm. (Mudra Dir., Nicor Gas Ex. 14.0, 17:383-18:401). Mr. Mudra also presents the Company's objections to AG/CUB witness Rubin's proposal to establish the rate increase for Nicor Gas' residential class using a straight 12.2% increase to each rate charge, monthly customer charge and the charges for the three rate steps. (Mudra Reb., Nicor Gas Ex. 29.0, 12:247-13:258; Rubin Add. Dir., AG/CUB Ex. 3.0, 18:374-19:388). Finally, Mr. Mudra discusses the Company's opposition to Staff witness Lazare's proposals to limit recovery in the monthly customer charges to only customer costs as determined by the ECOSS and to eliminate declining block rates and replace them with flat distribution rates. (Mudra Reb., Nicor Gas Ex. 29.0, 9:178-90, 10:212-11:224; Lazare Dir., Staff Ex. 7.0, 40:867-68, 42:916-19).

2. RATE 1 DESIGN AND CONSERVATION

Issue: Whether higher per therm delivery charges will actually encourage customers to conserve more natural gas.

Amount: There is no dollar amount associated with Conservation and Rate 1 Design.

Witnesses: Staff witness Lazare testifies regarding Nicor Gas' residential rate design, and its impact on residential customer conservation. Specifically, Mr. Lazare offers several rate proposals that result in higher per therm delivery charges because such charges purportedly encourage customers to conserve natural gas. (Lazare Dir., Staff Ex. 7.0, 41:887-901; Lazare Reb., Staff Ex. 20, 16:342-49). Nicor Gas witness Mudra discusses why it is inappropriate to establish higher distribution charges for the purpose of encouraging conservation, including (1) the benefits of associating fixed costs with fixed, not volumetric, charges, and (2) the Company's proposed Rider EEP will better encourage conservation, while proposed Rider VBA enables Nicor Gas to recover its fixed distribution costs regardless of changes in weather or conservation. (Mudra Reb., Nicor Gas Ex. 29.0, 13:265-75).

3. RATE 1 DESIGN - ALTERNATIVE STRAIGHT FIXED VARIABLE

Issue: Whether the Commission should approve as an alternative a Straight Fixed Variable ("SFV") residential rate design if it does not implement Rider VBA.

Amount: There is no dollar amount associated with Rate 1 - Alternative Design.

Witnesses: Nicor Gas witness Mudra discusses the appropriateness of the SFV rate design. (Mudra Dir., Nicor Gas Ex. 14.0, 16:350-17:381; Mudra Reb., Nicor Gas Ex. 29.0, 14:278-87) Mr. Mudra demonstrates that Staff witness Lazare's claims about the purported disadvantages of using a SFV rate design are wholly without merit. (Mudra Reb., Nicor Gas Ex. 29.0, 14:293-20:420; Lazare Dir., Staff Ex. 7.0, 34:734-47). Should the Commission prefer not to implement Rider VBA, Mr. Mudra also discusses the merits of the Company's alternative rate design, one that recovers more of its fixed costs through higher monthly customer charges. (Mudra Reb., Nicor Gas Ex. 29.0, 14:288-290). Specifically, the Company requests that the Commission approve a monthly customer charge that recovers at least 80% of the Company's fixed delivery service costs, similar to that ordered by the Commission in the Ameren Rate Case, but not less than the Company's proposed $13.55 monthly customer charge. (Mudra Sur., Nicor Gas Ex. 48.0, 19:406-19).

4. RATE 4 AND 74 DESIGN

Issue: Whether the Commission should approve Nicor Gas' proposed rate design for Rate 4 and Rate 74 as just and reasonable.

Amount: There is no dollar amount associated with Rate 4 and Rate 74 Design.

Witnesses: Nicor Gas witness Mudra discusses how the rate design for Rates 4 and 74 was developed. (Mudra Dir., Nicor Gas Ex. 14.0, 20:449-21:461). Mr. Mudra also responds to Staff witness Lazare's (Lazare Dir., Staff Ex. 7.0, 42:916-19) suggestion that Nicor Gas should replace its declining-block rate structures with a flat distribution structure, including the fact that the Commission was presented with similar proposals in the 2004 Rate Case and properly rejected them. (Mudra Reb., Nicor Gas Ex. 29.0, 8:167-11:224). Finally, Mr. Mudra demonstrates that Mr. Lazare's proposed rate design is inappropriate for Rates 4 and 74, because customers served under these rates are not homogenous, range in size and have different levels of monthly customer charges based on meter size and the Company's existing three-step declining block rate structure. (Mudra Reb., Nicor Gas Ex. 29.0, 20:421-23:483).

5. RATE 5 AND 75 DESIGN

(a) OVERVIEW

Issue: Whether the Commission should approve Nicor Gas' proposed rate design for Rate 5 and Rate 75.

Amount: There is no dollar amount associated with Rate 5 and Rate 75 Design.

Witnesses: Nicor Gas witness Mudra discusses how the rate design for Rates 5 and 75 was developed. (Mudra Dir., Nicor Gas Ex. 14.0, 21:462-75).

(b) ANNUAL THERM LIMITATION

Issue: Whether the Commission should increase the limit for eligibility in Rate 5 and Rate 75.

Amount: There is no dollar amount associated with Rate 5 and Rate 75 Design.

Witnesses: Staff witness Sackett initially proposes increasing the annual therm limit use for applicability of Rates 5 and 75 from 250,000 therms to 1.5 million therms, which was adopted from the proposal originally made by Vanguard witness Anderson. (Sackett Reb., Staff Ex. 24.0, 41:883-86; Anderson Dir., VES Ex. 1.0, 5:102-6:136). Recognizing Nicor Gas' concern about misallocation of costs between rate classes, Mr. Anderson reduces his recommended annual limit to 700,000 therms. (Anderson Reb., VES Ex. 2.0, 1:14-2:17). Nicor Gas witness Mudra demonstrates why the Commission should reject the increased therm levels proposed by Mr. Sackett and Mr. Anderson, because, among other reasons, the rates are not designed for customers using volumes as high as proposed and only about 10% of customers eligible for these rates have decided to take seasonal rate service. (Mudra Reb., Nicor Gas Ex. 29.0, 22:453-23:483; Mudra Sur., Nicor Gas Ex. 48.0, 26:579-83).

6. RATE 7 AND 77 DESIGN

Issue: Whether the Commission should approve Nicor Gas' proposed rate design for Rate 7 and Rate 77.

Amount: There is no dollar amount associated with Rate 7 and Rate 77 Design.

Witnesses: Nicor Gas witness Mudra discusses how the rate design for Rates 7 and 77 was developed. (Mudra Dir., Nicor Gas Ex. 14.0, 22:486-23:506; Mudra Sur., Nicor Gas Ex. 48.0, 29:634-42). Staff witness Lazare makes several proposals with respect to Rates 7 and 77, including a 1000% increase to the tail-block for Rate 77 customers, or, in the alternative, a 533% increase, both of which are opposed by IIEC witness Dr. Rosenberg. (Lazare Dir., Staff Exs. 7.04 and 7.06; Rosenberg Dir., IIEC Ex. 2.0, 25:523-28:585). Mr. Mudra discusses why the Commission should reject Mr. Lazare's proposals for Rates 7 and 77. (Mudra Sur., Nicor Gas Ex. 48.0, 35:754-61).

7. OTHER

IX. TARIFF REVISIONS AFFECTING TRANSPORTATION CUSTOMERS

A. OVERVIEW

Nicor Gas proposes to update certain charges and factors that relate to the Company's Transportation Charges.

B. UNCONTESTED ISSUES

1. INDIVIDUAL AND GROUP ADMINISTRATION CHARGES

Issue: Whether the Commission should approve Nicor Gas' proposed increases to the Individual and Group Administration Charges.

Amount: There is no dollar amount associated with Individual and Group Administration Charges.

Witnesses: Nicor Gas witness Mudra discusses the Company's proposed increases to the Individual and Group Administrative Charges in Rates 74 and 75. (Mudra Dir., Nicor Gas Ex. 14.0, 26:568-82). No party has challenged the Company's proposed increases.

2. RECORDING DEVICE CHARGES

Issue: Whether the Commission should approve Nicor Gas' proposed increase to the monthly Recording Device Charges for Rates 74 and 75.

Amount: There is no dollar amount associated with the monthly Recording Device Charges.

Witnesses: Nicor Gas witness Mudra discusses the Company's proposed increase to the monthly Recording Device Charges for Rates 74 and 75. (Mudra Dir., Nicor Gas Ex. 14.0, 26:583-27:593). No party has challenged the Company's proposed increase.

3. GROUP CHANGE FEES

Issue: Whether the Commission should approve Nicor Gas' proposed increases to the group fees applicable to transportation customers.

Amount: There is no dollar amount associated with these group fees.

Witnesses: Nicor Gas witness Mudra discusses the Company's proposed increase to the Group Change Fee applicable when transportation customers change the accounts included in a group and to the Group Charge under Rider 13. (Mudra Dir., Nicor Gas Ex. 14.0, 27:599-28:614). No party has challenged the Company's proposed increases.

4. TRANSPORTATION SERVICE CREDIT

Issue: Whether the Commission should approve Nicor Gas' proposed updates to the Transportation Service Credit.

Amount: There is no dollar amount associated with the Transportation Service Credit.

Witnesses: Nicor Gas witness Mudra discusses the Company's proposed update to the Transportation Service Credit ("TSC"), which applies to customers served under Riders 15 and 25. (Mudra Dir., Nicor Gas Ex. 14.0, 28:615-26). Mr. Mudra also addresses the Company's proposal, reached as part of the MOU negotiated with the Customer Select Gas Suppliers, that Customer Select customers receive a credit for gas in storage as part of the TSC. (Mudra Reb., Nicor Gas. Ex. 29.0, 59:1245-53). No party has challenged the Company's proposed revisions to the TSC.

5. GAS SUPPLY COST/DEMAND GAS COST

Issue: Whether the Commission should approve Nicor Gas' proposed update to the first component in the Gas Supply cost charge under Rates 6 and 7 and Rider 25.

Amount: There is no dollar amount associated with the Gas Supply cost charge.

Witnesses: Nicor Gas witness Mudra discusses the Company's proposed update to the first component in the Gas Supply cost charge under Rates 6 and 7 and Rider 25. (Mudra Dir., Nicor Gas Ex. 14.0, 30:650-57). No party has challenged the Company's proposed update to the Gas Supply cost charge under Rates 6 and 7 and Rider 25.

C. CONTESTED ISSUES

1. PROPOSED REDUCTIONS IN NOMINATION RIGHTS

(a) REDUCTION OF MAXIMUM DAILY NOMINATIONS ("MDN") IN THE MONTHS OF JULY THROUGH OCTOBER.

Issue: Whether the Commission should approve Nicor Gas' proposal to change the method of calculating a customer's MDN for the months of July through October.

Amount: There is no dollar amount associated with the MDNs.

Witnesses: Nicor Gas witness Bartlett discusses the Company's proposal to change the storage injection quantity portion of a customer's MDN from 25% of a customer's SBS capacity to 25% of a customer's <u>open</u> capacity as of April 30. (Bartlett Dir., Nicor Gas Ex. 4.0, 24:505-26:545; Bartlett Sur., Nicor Gas Ex. 38.0, 33:739-42). Mr. Bartlett also responds to Staff witness Sackett's proposal to halve Nicor Gas' proposed reduction in injection rights for these months and apply a 10% cushion to the April 30 balance. (Bartlett Sur., Nicor Gas Ex. 38.0, 33:742-45; Sackett Reb., Staff Ex. 24.0, 13:264-66). Further, Mr. Mudra responds to Vanguard witness

Anderson's concerns regarding the Company's proposed MDN revisions for July though October. (Mudra Reb., Nicor Gas Ex. 29.0, 32:692-33:706; Anderson Dir., VES Ex. 1.0, 8:172-9:184). Finally, Mr. Bartlett acknowledges that the Company would accept Mr. Sackett's alternatives should the Commission find that the Company's proposed changes are not acceptable. (Bartlett Sur., Nicor Gas Ex. 38.0, 34:754-59).

(b) REDUCTION OF MAXIMUM DAILY NOMINATIONS ("MDN") IN THE MONTHS OF MARCH AND APRIL.

Issue: Whether the Commission should approve Nicor Gas' proposal to revise the MDN for the months of March and April.

Amount: There is no dollar amount associated with the MDNs.

Witnesses: Nicor Gas witness Bartlett discusses the Company's proposal to change the daily nomination limits for the months of March and April. (Nicor Gas Exs. 4.0, 27:572-29:629; Bartlett Sur., Nicor Gas Ex. 38.0, 33:746-50). Mr. Bartlett also responds to Staff witness Sackett's (Staff Ex. 24.0) proposal to halve Nicor Gas' proposed reduction in injection rights for these months. (Bartlett Sur., Nicor Gas Ex. 38.0, 33:750-53; Sackett Reb., Staff Ex. 24.0, 14:296-98). Finally, Mr. Bartlett acknowledges that the Company would accept Mr. Sackett's alternatives should the Commission find that the Company's proposed changes are not acceptable. (Bartlett Sur., Nicor Gas Ex. 38.0, 34:754-59).

2. STORAGE CALCULATIONS

(a) SBS ENTITLEMENT

Issue: Whether the Commission should approve Nicor Gas' proposed SBS entitlement of 28 days.

Amount: There is no dollar amount associated with the SBS entitlement.

Witnesses: Nicor Gas witness Mudra discusses the Company's calculation of the Storage Capacity Allocation, or SBS entitlement, which represents the equal number of peak days of on-system storage capacity available to all Nicor Gas' customers. (Mudra Reb., Nicor Gas Ex. 29.0, 38:819-27). Mr. Mudra confirms that Nicor Gas properly computed that 28 peak days of storage capacity are available to all Sales, Customer Select and Transportation customers. (Mudra Sur., Nicor Gas Ex. 48.0, 41:900-43:938). Finally, Mr. Mudra explains why Staff witness Sackett incorrectly describes Nicor Gas' formula to calculate the SBS entitlement that Nicor Gas has available for all Sales, Transportation and Customer Select customers. (Mudra Sur., Nicor Gas Ex. 48.0, 40:878-41:899; Sackett Reb., Staff Ex. 24.0, 19:383-94).

IIEC witness Rosenberg believes that Nicor Gas should use the maximum amount of working gas in storage of 149.7 Bcf established in the 2004 Rate Case in the denominator rather than 134.6 Bcf discussed by Nicor Gas witness Bartlett. (Rosenberg Dir., IIEC Ex. 1.0, 15:288-16:319; Bartlett Dir., Nicor Gas Ex. 4.0, 6:125-35; Bartlett Reb., Nicor Gas Ex. 19.0, 12:276-83). CNE witness Fabrizius recommends increasing the SBS allocation of the number of peak days of storage to 31 days by using 149.7 Bcf in the numerator of the SBS entitlement calculation.

(Fabrizius Dir., CNE-Gas Ex. 1.0, 16:338-45). Mr. Bartlett discusses the operational capabilities and proper amount of storage capacity to use in these calculations. (Bartlett Reb., Nicor Gas Ex. 19.0, 12:275-14:315).

(b) STORAGE BANKING SERVICE ("SBS") CHARGE

Issue: Whether the Commission should approve Nicor Gas' proposed SBS charge of $.0042 per therm of storage capacity.

Amount: There is no dollar amount associated with the SBS charge.

Witnesses: Nicor Gas witnesses Mudra and Bartlett discuss how the Company developed the proposed SBS charge to reflect current cost of service in connection with the Company's transportation service rates, *i.e.*, Rates 74, 75, 76 and 77. (Mudra Dir., Nicor Gas Ex. 14.0, 24:525-38; Mudra Reb., Nicor Gas Ex. 29.0, 35:759-36:771). Although the basic method of calculating the SBS charge is the same as was approved in the 2004 Rate Case, which is to divide the storage revenue requirement (dollars) by the amount of available storage capacity (Bcf), Nicor Gas believes it would be inappropriate to continue to use the 149.7 Bcf of capacity established in the 2004 Rate Case because, as Mr. Bartlett indicates, that amount of capacity is not operationally available. (Mudra Reb., Nicor Gas Ex. 29.0, 37:789-800; Bartlett Reb., Nicor Gas Ex. 19.0, 12:276-13:296).

CNE witness Fabrizius, IIEC witness Dr. Rosenberg and Staff witness Sackett suggest that the SBS charge should be based on 149.7 Bcf of storage capacity. (Fabrizius Reb., CNE-Gas Ex. 3.0, 14:288-92; Rosenberg Reb., IIEC Ex. 2.0, 29:616-17; Sackett Reb., Staff Ex. 24.0, 27:580-28:590). Mr. Mudra demonstrates why the SBS charge should be based on 134.6 Bcf, which is the maximum amount of storage capacity that is operationally available and therefore represents the maximum amount that Sales, Transportation and Customer Select customers can use. (Mudra Sur., Nicor Gas Ex. 48.0, 44:963-46:1003).

(c) STORAGE WITHDRAWAL FACTOR

(i) STORAGE WITHDRAWAL CONSTANT

Issue: Whether the Commission should approve the Company's proposal to increase the Storage Withdrawal Factor / Storage Withdrawal Constant to 0.018.

Amount: There is no dollar amount associated with the Storage Withdrawal Factor / Storage Withdrawal Constant.

Witnesses: Nicor Gas witness Mudra discusses the Company's proposal to update the Storage Withdrawal Factor ("SWF") or "Storage Withdrawal Constant" ("SWC") 0.018 (1.8%) based on 2009 test year data, and that the purpose of the computation is to derive a constant that, when multiplied by the SBS Entitlement days approved in this proceeding, yields a result that is approximately equal to the proportion of gas which can be withdrawn from Nicor Gas' storage field on a Critical Day. (Mudra Dir., Nicor Gas Ex. 14.0, 29:645-50; Mudra Sur., Nicor Gas 48.0, 49:1063-50:1097).

Mr. Mudra also responds to CNE witness Fabrizius' suggestion that Nicor Gas proposes a different method for calculating the 0.017 factor used within the SWF formula than was approved in the 2004 Rate Case. (Fabrizius Dir., CNE-Gas Ex. 1.0, 4:81-5:88). Specifically, Mr. Mudra demonstrates that, as in the 2004 Rate Case, the numerator is the amount of withdrawals that can be delivered from on-system storage on a peak day, or 2.5 Bcf. (Mudra Reb., Nicor Gas. Ex. 29.0, 45:938-46:970).

(ii) TIMING OF THE STORAGE WITHDRAWAL MULTIPLE CALCULATION

Issue: Whether the Commission should order the Company to determine a customer's Maximum Inventory Balance between the period of October 15 and November 15 for purposes of the customer's SWF or SWC.

Amount: There is no dollar amount associated with the Timing of the Storage Withdrawal Multiple calculation.

Witnesses: Nicor Gas witness Mudra demonstrates why the recommendation of IIEC witness Rosenberg to determine the customer's Maximum Inventory Balance between the period of October 15 and November 15 as opposed to a determination on November 1 is problematic and should be rejected. (Mudra Reb., Nicor Gas. Ex. 29.0, 46:971-47:986; Rosenberg Dir., IIEC Ex. 1.0; 22:441-43).

(iii) OTHER

3. COSTS ASSOCIATED WITH STORAGE AND SYSTEM LOSSES

(a) STORAGE LOSS ADJUSTMENT ("SLA") FACTOR

Issue: Whether the Commission should approve Nicor Gas' 2% Storage Gas Loss adjustment.

Amount: There is no dollar amount associated with the 2% Storage Gas Loss adjustment.

Witnesses: Nicor Gas witness Mudra discusses Nicor Gas' 2% Storage Gas Loss factor, which is a subset of the system-wide UFGA that specifically relates to gas that is withdrawn from Nicor Gas' storage fields. (Mudra Reb., Nicor Gas Ex. 29.0, 23:487-26:557). More particularly, Mr. Mudra explains that Total Storage Gas Loss volumes associated with both Sales and Transportation customer withdrawals from storage are determined by multiplying total storage withdrawals by 2%. (*Id.*) Staff witnesses Anderson , Hathhorn and Sackett express concerns about the 2% Storage Gas Loss adjustment. (Anderson Dir., Staff Ex. 9.0, 15:278-96; Hathhorn Dir., Staff Ex. 2.0, 33:826-64; Sackett Dir., Staff Ex. 11.0R, 25:512-31). In response, Mr. Mudra points out that Nicor Gas' compliance filing for the 2004 Rate Case presented exhibits showing how the 2% Storage Gas Loss factor was credited to customers and Staff did not disagree with the methods used by Nicor Gas to recover these costs. (Mudra Reb., Nicor Gas Ex. 29.0, 26:550-57).

(b) UNACCOUNTED-FOR GAS ADJUSTMENT ("UFGA")

Issue: Whether the Commission should approve Nicor Gas' UFGA.

Amount: There is no dollar amount associated with the UFGA.

Witnesses: Nicor Gas witness Mudra discusses the Company's system-wide UFGA, which represents the difference between the amount of gas Nicor Gas measures as being delivered into its system from all sources including Sales and Transportation customers (the sum of pipeline deliveries plus storage withdrawals and less storage injections) and the amount of gas that is ultimately delivered (metered) to customers. (Mudra Reb., Nicor Gas Ex. 29.0, 23:487-26:557). Staff witnesses Anderson , Hathhorn and Sackett express concerns about Nicor Gas' UFGA. (Anderson Dir., Staff Ex. 9.0, 15:278-96; Hathhorn Dir., Staff Ex. 2.0, 33:826-64; Sackett Dir., Staff Ex. 11.0R, 25:512-31). In response, Mr. Mudra points out that Nicor Gas' method of recovering the UFGA is consistent with methods used by other Illinois utilities and has not been challenged by Staff or other intervenors in the past. (Mudra Reb., Nicor Gas Ex. 29.0, 26:550-57).

4. INTRA-DAY NOMINATIONS

Issue: Whether the Commission should reject CNE's proposal regarding intraday nominations.

Amount: There is no dollar amount associated with intraday nominations.

Witnesses: CNE witness Rozumialski recommends that the Commission require Nicor Gas to implement the NAESB intraday nomination schedule and allow customers the ability to modify their nominations submitted on a timely basis in response to certain situations. (Rozumialski Dir., CNE Ex. 2.0, 4:68-69). Nicor Gas witness Bartlett discusses the numerous reasons why the Commission should reject CNE's proposal regarding intraday nominations. (Bartlett Reb., Nicor Gas Ex. 19.0, 31:687-708). Further, the Commission has already addressed the issue by ruling against this recommendation in the 2004 Rate Case. (Order at 134-35).

5. TRADING OF STORED GAS

Issue: Whether the Commission should reject Vanguard's trading of storage balances proposal.

Amount: There is no dollar amount associated with trading of stored gas.

Witnesses: Vanguard witness Anderson and Staff witness Sackett propose that Nicor Gas allow the trading of storage balances essentially at any time. (Anderson Reb., VES Ex. 2.0, 2:26-36; Sackett Reb., Staff Ex. 24.0, 36:771-37:794). Nicor Gas witness Mudra explains that storage balance trading is already allowed when a customer is in an excess storage position, meaning it has more gas in storage then its allowable storage capacity. (Mudra Sur., Nicor Gas Ex. 48.0, 54:1176-80). Mr. Mudra further explains that the existing provision allows a customer to avoid reoccurring excess storage balance penalties of $0.10 per therm. (*Id.*) Finally, Mr. Mudra describes the Company's opposition to the proposals by Vanguard and Staff regarding storage balances trading. (*Id.*, 54:1181-55:1201).

6. TIMING OF MDCQ

Issue: Whether the Commission should reject Vanguard's request to change the time period of the Customer's Maximum Daily Contract Quantity ("MDCQ") annual redetermination to include the most recent January through March months.

Amount: There is no dollar amount associated with the timing of MDCQ.

Witnesses: Vanguard witness Anderson requests that the Commission change the time period of the Customer's MDCQ annual redetermination to include the most recent January through March months to capture the entire most recent heating season. (Anderson Dir., VES Ex. 1.0, 7:141-48). The MDCQs are used to identify the maximum amount of Storage Banking Service capacity a customer may elect (SBS Entitlement multiplied by MDCQ equals maximum amount of Storage Banking Service capacity) and Firm Backup Service ("FBS") quantities. (Mudra Sur., Nicor Gas Ex. 48.0, 37:803-06).

Nicor Gas witness Mudra states that the Company does not agree that this is an appropriate change and discusses two existing tariff requirements that render Mr. Anderson's request impractical from a timing perspective. (Mudra Reb., 29.0, 30:648-31:661). Mr. Mudra also describes the current circumstances that currently allow customers an opportunity to re-establish their MDCQs, and states the Company's position that the existing MDCQ calculation process along with the ability to request an MDCQ redetermination provides more than adequate flexibility to Transportation customers and addresses Mr. Anderson's concern. (*Id*., 31:662-72).

7. SUPER-POOLING ON CRITICAL DAYS

Issue: Whether the Commission should approve the concept of super-pooling for third-party Suppliers on Critical Days.

Amount: There is no dollar amount associated with the super-pooling concept.

Witnesses: CNE witness Rozumialski recommends the concept of super-pooling for third-party Suppliers in commonly-managed groups on Critical Days, which would require Nicor Gas to aggregate or net all the gas delivery and storage balance information across all the Supplier's individual groups. (Rozumialski Dir., CNE Ex. 2.0, 18:377-79; Rozumialski Reb., CNE-Gas Ex. 4.0, 11:204-17:356). Staff witness Sackett agrees. (Sackett Reb., Staff Ex. 24.0, 39:845-48). Nicor Gas witness Mudra discusses the Company's opposition to this proposal. (Mudra Reb., Nicor Gas Ex. 29.0, 34:723-35:744). Mr. Mudra also presents the Company's counter-proposal to offer a process that would accommodate the issue of a Supplier being faced with penalty charges on a Critical Day if the Supplier's Rider 13 groups had sufficient deliveries in aggregate. (Mudra Sur., Nicor Gas Ex. 48.0, 56:1213-57:1234).

8. SEASONAL USAGE MAXIMUM

9. OTHER

X. TARIFF REVISIONS AFFECTING CUSTOMER SELECT CUSTOMERS

A. OVERVIEW

Interstate Gas Supply of Illinois, Inc. and Dominion Retail, Inc. (collectively the "Customer Select Gas Suppliers" or "CSGS") entered into a Memorandum of Understanding ("MOU")with Nicor Gas wherein the parties reached a comprehensive agreement on all small volume choice program ("Customer Select") issues. (Mudra Reb., Nicor Ex. 29.3).

B. UNCONTESTED ISSUES

As a result of the MOU, the Company proposes: 1) Customer Select customers receive a credit for gas in storage as part of the Transportation Service Credit; 2) to calculate Supplier's end-of-month Storage Inventory Target Levels during the winter as a percentage of month-end storage capacity, as opposed to a percentage of the preceding November 1 inventory; 3) Customer Select Suppliers be allowed to cycle annually the additional operational balancing storage capacity of 6 times the Group's MDCQ effective as of the first May following the effective date of the tariff and permit the combined storage capacity of 34 times the Group's MDCQ as the basis for calculating monthly storage inventory target levels and the daily storage injection capacity; 4) to include the Account Charge in the base rates of all eligible customers; 5) to eliminate the $10.00 Group Addition fee as it relates to switching from one supplier to another and recover these costs through base rates; 6) to extend the number of days a customer has to select a new Customer Select Supplier after returning to Nicor Gas from another Customer Select Supplier from 45 to 120 days; 7) to make available to Customer Select Suppliers a residential customer mailing list; and 8) to continue to meet with interested Customer Select stakeholders. (Mudra Reb., Nicor Ex. 29.0, 58:1235-66:1400). Customer Select Gas Suppliers witness Crist agrees the MOU is a comprehensive settlement covering all CSGS issues. (Crist Reb., CSGS Ex. 2.0, 2:18- 3:8). After reviewing MOU and responses to data requests, Staff recommends the approval of the resolution of issues as set forth in the MOU. (Sackett Reb., Staff Ex. 24.0, 41:889-47:1026).

XI. EXISTING RIDERS

A. RIDER 2 – FRANCHISE COST ADJUSTMENT

Nicor Gas proposes to modify Rider 2 to provide for annual updates to charges based upon the actual costs incurred. (Mudra Dir., Nicor Ex. 14.0, 30:660-61). Staff witness Boggs recommends approval of the Company's proposal. (Boggs Dir., Staff Ex. 8.0, 4:76-77). Staff witness Hathhorn recommends the Company include supporting work papers with its annual filing. (Hathhorn Dir., Staff Ex. 2.0, 33:821-24). The Company accepts the Staff recommendation to include its supporting work papers with its annual Informational Sheet filing. (Mudra Reb., Nicor Ex. 29.0, 48:1006-07).

B. RIDER 5 – STORAGE SERVICE COST RECOVERY

The Company has proposed two update factors within Rider 5 based on the results of the ECOSS. (Mudra Dir., Nicor Ex. 14.0, 32:706-33:722). No party objected to the Company's proposed changes.

C. RIDER 8 – ADJUSTMENTS FOR MUNICIPAL AND STATE UTILITY TAXES

Issue: Whether the Commission should approve Nicor Gas' proposal to clarify its authority to collect payments resulting from audit adjustments imposed by Municipalities, Local Governmental Units or the State.

Amount: There is no dollar amount associated with the Adjustments for Municipal and State Utility Taxes.

Witnesses: The Company has proposed to modify the rider to include taxes by other local governmental units. (Mudra Dir., Nicor Gas Ex. 14.0, 30:660-61). Staff's inquiry into the Company's proposal focuses on how tax audit adjustments would be recovered, its affect on how customers are charged and determining the appropriate statute of limitations. (Boggs Dir., Staff Ex. 8.0, 6:101-10:201) (Boggs Reb., Staff Ex. 21.0, 1:14-4:83). The Company has provided Staff additional information, including a clarification of its authority to collect payments from customers resulting from tax audit adjustments. (Mudra Reb., Nicor Gas Ex. 29.0, 48:1008-49:1031; Mudra Sur., Nicor Gas Ex. 48.0, 57:1239-58:1274). The Company recommends approval of its proposed changes to Rider 8.

XII. NEW RIDERS

A. OVERVIEW

Nicor Gas is proposing five new riders to address specific business conditions. Nicor Gas' Rider 26, Uncollectible Expense Adjustment ("Rider UEA") and Rider 27, Company Use Adjustment ("Rider CUA") respond to significant year-to-year volatility in natural gas prices. Rider 28, Volume Balancing Adjustment "(Rider VBA") and Rider 29, Energy Efficiency Plan ("Rider EEP") are designed to break the direct link between delivery volumes and the Company's recovery of fixed costs. Lastly, Rider 30, Qualifying Infrastructure Plant ("Rider QIP") establishes mechanism for certain additional capital investments which will facilitate the Company's ongoing replacement of old cast iron main and copper services.

B. RIDER 26 – UNCOLLECTIBLE EXPENSE ADJUSTMENT

Issue: Whether the Commission should approve Nicor Gas' proposed Rider UEA, which provides for timely recovery of the volatile and significant cost associated with bad debt.

Amount: There is no dollar amount associated with Rider UEA.

Witnesses: Nicor Gas witness O'Connor discusses the rationale behind Rider UEA, which is intended to address the significant year-to-year volatility in natural gas prices that is beyond the prudent management of the Company and has had a substantial negative impact on the Company's opportunity to recover its gas-related costs as natural gas prices directly affect the level of the Company's uncollectible expense. (O'Connor Dir., Nicor Gas Ex. 12.0, 6:116-15:261). Nicor Gas witness Mudra presents the specific details about how Rider UEA would work if approved, including the formulas, proposed billing mechanisms and associated definitions, and the proposed annual reconciliation process. (Mudra Dir., Nicor Gas Ex. 14.0, 34:743-38:837; Mudra Reb., Nicor Gas Ex. 29.0, 50:1047-52). Mr. Mudra also accepts the four recommendations made by Staff witness Hathhorn to the tariff provisions in Rider UEA in the event the Commission determines the rider is appropriate. (Mudra Reb., Nicor Gas Ex. 29.0, 50:1056-63; Hathhorn Dir., Staff Ex. 2.0, 26:639-27:647).

C. RIDER 27 – COMPANY USE ADJUSTMENT

Issue: Whether the Commission should approve Nicor Gas' proposed Rider CUA, which provides for timely recovery of the volatile and significant effects of gas price changes in the cost of natural gas used by the Company in the normal course of its business operations.

Amount: There is no dollar amount associated with Rider CUA.

Witnesses: Nicor Gas witness O'Connor discusses the rationale behind Rider CUA, which is intended to address the significant year-to-year volatility in natural gas prices that is beyond the prudent management of the Company and has had a substantial negative impact on the Company's opportunity to recover its gas-related costs as natural gas prices directly affect the Company's cost of gas used for operations. (O'Connor Dir., Nicor Gas Ex. 12.0, 6:116-11:178, 16:262-20:343). Nicor Gas witness Mudra presents the specific details about how Rider CUA would work if approved, including the formulas, proposed billing mechanisms and associated definitions, and the proposed annual reconciliation process. (Mudra Dir., Nicor Gas Ex. 14.0, 38:838-43:945; Mudra Reb., Nicor Gas Ex. 29.0, 51:1066-75). Mr. Mudra also accepts the four recommendations made by Staff witness Hathhorn to the tariff provisions in Rider CUA in the event the Commission determines the rider is appropriate. (Mudra Reb., Nicor Gas Ex. 29.0, 51:1079-86; Hathhorn Dir., Staff Ex. 2.0, 30:733-38). Mr. Mudra also responds to Staff witness Brightwell's recommendation regarding test-year forecasted volume. (Mudra Reb., Nicor Gas Ex. 29.0, 52:1088-96; Brightwell Dir., Staff Ex. 13.0, 26:531-37).

D. RIDER 28 – VOLUME BALANCING ADJUSTMENT

Issue: Whether the Commission should approve Nicor Gas' proposed Rider VBA, which is similar to the volume balancing adjustment approved by the Commission in the Peoples Gas Rate Case and provides the Company the opportunity to maintain allowed revenues per customer sufficient to recover its fixed costs as approved in this proceeding, despite changes in customer usage from year to year.

Amount: There is no dollar amount associated with Rider VBA.

Witnesses: Nicor Gas witness O'Connor discusses the rationale behind Rider VBA, which is proposed as a pilot and is intended to address the continuing decline in gas deliveries due to the effects of conservation, economic conditions and weather that also has had a direct impact on the Company's ability to recover its fixed costs. (O'Connor Dir., Nicor Gas Ex. 12.0, 20:344-26:474). Nicor Gas witness Mudra presents the specific details about how Rider VBA would work if approved, including the formulas, proposed billing mechanisms and associated definitions, and the proposed annual reconciliation process. (Mudra Dir., Nicor Gas Ex. 14.0, 43:946-47:1029; Mudra Reb., Nicor Gas Ex. 29.0, 52:1099-1106). Mr. Mudra also accepts the five recommendations made by Staff witness Jones to the tariff provisions in Rider VBA in the event the Commission determines the rider is appropriate. (Mudra Reb., Nicor Gas Ex. 29.0, 53:1110-19; Jones Dir., Staff Ex. 3.0, 22:401-27:545).

E. RIDER 29 – ENERGY EFFICIENCY PLAN

Issue: Whether the Commission should approve Nicor Gas' proposed Rider EEP, which is similar to the energy efficiency program approved by the Commission in the Peoples Gas Rate Case and provides for the timely recovery of costs associated with creating and implementing an energy efficiency plan.

Amount: There is no dollar amount associated with Rider EEP.

Witnesses: Nicor Gas witness O'Connor discusses the rationale behind Rider EEP, which is proposed as a pilot and is intended to allow the Company to propose and support a funding mechanism for energy efficiency programs. (O'Connor Dir., Nicor Gas Ex. 12.0, 20:344-22:392, 26:475-28:533). Nicor Gas witness Mudra presents certain details about how Rider EEP would work if approved, including the formulas, proposed billing mechanisms and associated definitions. (Mudra Dir., Nicor Gas Ex. 14.0, 47:1030-49:1091; Mudra Reb., Nicor Gas Ex. 29.0, 56:1187-91). Mr. Mudra also accepts the seven recommendations made by Staff witness Jones to the tariff provisions in Rider EEP in the event the Commission determines the rider is appropriate. (Mudra Reb., Nicor Gas Ex. 29.0, 56:1195-57:1205; Jones Dir., Staff Ex. 3.0, 31:645-37:784). Nicor Gas witness Nichols discusses the Company's proposed process to implement Rider EEP. (Nichols Dir., Nicor Gas Ex. 13.0, 5:109-12:256). Ms. Nichols also demonstrates why the Commission should reject the recommendations of Staff witness Brightwell for removal of the Conservation Stabilization Adjustment component from the rider and overhaul of the Company's proposed management structure. (Nichols Reb., Nicor Gas Ex. 28.0, 2:41-6:136; Nichols Sur., Nicor Gas Ex. 47.0, 4:74-7:156; Brightwell Dir., Staff Ex. 13.0, 15:281-16:320; Brightwell Reb., Staff Ex. 25.0, 9:190-92, 10:197-99). Finally, ELPC witness Kubert presents arguments that support the Company's use of ratepayer funds to promote energy efficiency. (Kupert Dir., ELPC Ex. 1.0; Kupert Reb., ELPC Ex. 2.0).

F. RIDER 30 – QUALIFYING INFRASTRUCTURE PLANT

Issue: Whether the Commission should approve Nicor Gas' proposed Rider QIP, which provides for the recovery of the cost of and the return on investment arising from the Company's program to accelerate the replacement of cast iron main and copper services.

Amount: There is no dollar amount associated with Rider QIP.

Witnesses: Nicor Gas witness O'Connor discusses the rationale behind Rider QIP, which is intended to allow the Company to recover certain additional capital investments in a timely fashion to facilitate Nicor Gas' ongoing replacement of its old cast iron main and copper services. (O'Connor Dir., Nicor Gas Ex. 12.0, 28:534-34:673). Nicor Gas witness Mudra presents the specific details about how Rider QIP would work if approved, including the formulas, proposed billing mechanisms and associated definitions. (Mudra Dir., Nicor Gas Ex. 14.0, 49:1092-51:1138). Mr. Mudra also accepts the four recommendations made by Staff witness Hathhorn to the tariff provisions in Rider QIP in the event the Commission determines the rider is appropriate. (Mudra Reb., Nicor Gas Ex. 29.0, 58:1223-32; Hathhorn Dir., Staff Ex. 2.0, 21:487-93). Finally, Nicor Gas witness McCain discusses the benefits obtained through Rider QIP. (McCain Reb., Nicor Gas Ex. 20.0; McCain Sur., Nicor Gas Ex. 39.0).

XIII. TERMS AND CONDITIONS

A. PROPOSED CHANGES

Nicor witness Mudra sets forth the Company's proposed changes to its Terms and Conditions tariff language. (Mudra Dir., Nicor Ex. 14.0, 51:1143-53:1183). Staff witnesses Boggs and Sackett proposed changes as well:

(1) The charge to a customer for damaging the Company's non-steel service pipes, sized 1.18 inch or less would be increased from \$360.00 to \$410.00.

(2) The charge for returns of negotiable instruments for non-sufficient funds would be increased from \$16.00 to \$25.00.

(3) The charges per foot for installation of gas service pipe for residential and small commercial customers (Meter Class A) exceeding the first 60 feet would be increased according to the schedule contained in Sheet No. 41.

(4) The charge for service reconnection after a discontinuation for non-payment of service would increase from \$23.00 to \$42.00. However, as provided for under the Commission's rules, a customer disconnected for credit reasons would continue to automatically have one reconnection charge waived each year under 83 Ill. Adm. Code § 280.150. Nicor Gas' service reconnection charge has not been increased since 1996 and should be updated to cover current costs.

(5) Eliminate the "bimonthly" billing program.

(6) Eliminate item (g) on Sheet No. 42, which applies to buildings of at least four stories and provides that (1) underground service pipe will be installed at no charge, and (2) the Company will own, operate and maintain vertical gas risers within the building. The program is being eliminated due to limited use over the past ten years.

(7) Update Sheet No. 54 – Bill Format to include the proposed charges for Rate 1 (Residential Service).

(8) The Company proposes to make a variety of "housekeeping" changes on Sheet Nos. 33, 34, 35.5, 38, 46, 50, 50.1 and 52.5 to further clarify or remove outdated language.

(9) Update the Table of Contents (Sheet No. 1.5) to incorporate its proposed changes in this proceeding.

(10) Update the list of municipalities and unincorporated contiguous territories to which the schedule of rates applies on Sheet Nos. 2 through 9.

(11) Standardize the language within its non-residential tariffs to indicate that the initial term shall commence when the Company begins to supply service, to clarify its telephone line requirements for daily metered Rates 6 and 7, and to make other miscellaneous "housekeeping" items updates on Sheet Nos. 11, 11.5, 12, 14, 21, 24 and 28.

(12) Staff recommends a change be made the Company's third revised Sheet No. 7, which identifies the Village of Niota as being in Cook County rather than Hancock County. (Boggs Dir., Staff Ex. 8.0, 24:473-75).

(13) Staff recommends for the purposes of the maximum daily nomination ("MDN") determination, that "the Company will accept anticipated monthly usage provided it is substantiated by the Customer." (Sackett Dir., Staff Ex. 11.0R, 4:68-69).

Amount: N/A

Witnesses: Nicor witness Mudra introduces and supports the changes to the Company's Terms and Conditions. (Mudra Dir., Nicor Ex. 14.0, 51:1140-53:1183; Mudra Reb., Nicor Ex. 29.0, 26:559-35:744; Mudra Sur., Nicor Ex. 48.0, 36:770-40-858). Staff witness Boggs has reviewed generally the proposed changes to the Terms and Conditions and has recommended their approval. (Boggs Dir., Staff Ex. 8.0, 10:203-24:475) (Boggs Reb., Staff Ex. 21.0, 4:85-11:224). Staff witness Sackett provides a specific modification relating to MDN. (Sackett Dir., Staff Ex. 11.0R, 4:68-69) AG/CUB witness Rubin opposes the Company's proposed Non-sufficient funds ("NSF") charge. (Rubin Dir., AG/CUB Ex. 2.0, 38:851-42:922; Rubin Reb., AG/CUB Ex. 5.0, 3:57-4:79).

B. UNCONTESTED ISSUES

(1) The Company agrees to Staff's proposal to reduce the Company's proposed charge to a customer for damaging the Company's non-steel service pipes, sized 1.18 inch or less. From $410 to $408.50. (Mudra Reb., Nicor Ex. 48.0, 36:778-79).

(2) Staff recommends approval of the Company's proposed charge for installation of gas service pipe for residential and small commercial customers (Meter Class A) exceeding the first 60 feet would be increased according to the schedule contained in Sheet No. 41. (Boggs Reb., Staff Ex. 21.0, 7:130-33).

(3) Staff recommends approval of the Company's proposed $42.00 charge for service reconnection after a discontinuation for non-payment of service. (Boggs Reb., Staff Ex. 21, 7:143-45).

(4) Staff recommends approval of the Company's proposal to eliminate the "bimonthly" billing program . (Boggs Reb., Staff Ex. 21, 8:166-69).

(5) Staff recommends approval of the Company's proposal eliminate the vertical gas risers program. (Boggs Reb., Staff Ex. 21, 9:183-87).

(6) No party objected to the Company's proposal to update Sheet No. 54 – Bill Format to include the proposed charges for Rate 1 (Residential Service).

(7) Staff recommends approval of various housekeeping items. (Boggs Dir., Staff Ex. 8.0, 17:332-19:377). Staff recommends approval of the Company's proposed changes to tariff Sheet 33. (Id., 17:336-18:356). Staff recommends approval of the Company's proposed changes to tariff Sheet 34. (Id., 18:35819:373). Staff recommends approval of the Company's proposed changes to tariff Sheet 38 to reflect the increased Service Reconnection Charge. (Boggs Reb., Staff Ex. 21.0 10-200-06). No party expressly objected to changes on Sheet Nos. 35.5, 36, 46, 50, 50.01 and 52.5.

(8) No party opposed the Company's proposal to update the Table of Contents (Sheet No. 1.5).

(9) Staff recommends approval of the Company's proposed updated municipality list. (Boggs Dir., Staff Ex. 8.0, 20:403-06).

(10) Staff recommends approval of the Company's proposed changes to Rates 6 and 7 and Sheet Nos. 14 and 21 items. (Id., 21:408-26). Staff recommends approval of the Company's proposed change to tariff Sheet 12 wherein the Company seeks to modify the multiplier from .53 times the Customer's Maximum Daily Contract Quantify to .50 times. (Boggs Reb., Staff Ex. 21.0, 11:210218). Staff did not oppose the change to Company's Sheet No. 12 requiring a conforming telephone line. (Id., 22 438-442). No party expressly opposed the changes to Sheet Nos. 11, 11.5, 21, 24, and 28.

(11) The Company accepts Staff's proposal to correctly reflect the Village Niota as being in Hancock County. (Mudra Reb., Nicor Ex. 29.0, 49:1032-36).

(12) The Company accepts Staff's recommendation for the purposes of the MDN determination, that "the Company will accept anticipated monthly usage provided it is substantiated by the Customer." (Id., 30:633).

C. CONTESTED ISSUES

1. NON-SUFFICIENT FUNDS ("NSF")

Issue: Is the Company's proposed increase to the NSF charge from $16.00 to $25.00 reasonable?

Amount: N/A

Witnesses: AG/CUB objects to the change in NSF charge claiming it results in double-recovery of working capital. (Rubin Dir., AG/CUB Ex. 2.0, 40:888). The Company explained no double-recovery occurs as revenues collected through the NSF fee are used to reduce test-year operation expenses. (Mudra Reb., Nicor Ex. 29.0 28:604-608; Mudra Sur., Nicor Gas Ex. 48,0, 36:780-37:798). Staff recommends approval of the change in NSF fee. (Boggs Reb., Staff Ex. 21.0, 6:111-16).

XIV. REVENUES

A. TOTAL BILLING UNITS/RATE 4 AND RATE 74 BILLING UNITS

Issue: Whether AG/CUB's proposal to increase the forecasted total billing units for the 2009 test year, by proposing increases in Rate 4 and Rate 74 billing units, is reasonable.

Amount: AG/CUB's proposal would reduce the Company's annual revenue requirement by $1,441,000.

Witnesses: AG/CUB witness Effron claims that the Company has under forecast its 2009 Rate 4 and Rate 74 billing units. He proposes to increase the billing units for those two rate classes, and a corresponding increase to the Company's total forecasted 2009 billing units. (Effron Dir., AG/CUB Ex. 1.0 16:5-18:8; Effron Reb., AG/CUB Ex. 4.0, 7:6-9:2)

Nicor Gas witness Pepping explains that the AG/CUB proposal improperly inflates 2009 forecasted billing units. She further explains that the Company's forecasting methodology for total billing units over a 10 year period has been within an average of 1.5% of actual usage, and that the Commission should use its forecast of total billing units. (Pepping Reb., Nicor Gas Ex. 31.0; Pepping Sur., Nicor Gas Ex. 50.0).

No other party opposes the Company's forecast of total test year billing units, or the forecasted Rate 4 and Rate 74 billing units.

B. NICOR ENERGY SERVICES BILLING ADJUSTMENT

Issue: Staff seeks to impute a $0.25 per bill charge for billing services that Nicor Gas provides to Nicor Energy Services, instead of the $0.112 per bill currently being charged.

Amount: Staff's proposal would reduce the Company's annual revenue requirement by $588,000.

Witnesses: Staff witness Hathhorn proposes to impute the $0.25 per bill charge based upon her belief that the billing services being charged to Nicor Energy Services "appears to be the same billing services" as what is being provided to Nicor Solutions. Accordingly, she concludes that the $0.25 charge per bill should apply to both companies. (Hathhorn Reb., Staff Ex. 15.0, 12:264-14:300)

Nicor Gas witness Gorenz explains that the billing services being provided to Nicor Energy Services are different than the service being provided to Nicor Solutions. He explains that the $0.112 per bill charge to Nicor Energy Services conforms to the Company's Commission-approved operating agreement, and should be accepted. (Gorenz Sur., Nicor Gas Ex. 45.0, 8:167-13:273).

XV. GROSS REVENUE CONVERSION FACTOR

XVI. OTHER ISSUES

A. ACCOUNTING FOR STORAGE GAS LOSSES

Issue: Does the Company's 2% withdrawal factor appropriately measure and account for storage gas losses?

Amount: N/A

Witnesses: Nicor Gas witness Gorenz explains that storage gas losses are equivalent to 2% of total annual gross aquifer withdrawals. The Company has, since the 1960s, applied a 2% adjustment factor to all metered volumes withdrawn from its storage fields to account for storage gas losses, and each month, total storage gas losses are allocated between sales and transportation customers based on proportionate shares of storage withdrawal activity. Inventory verification studies have never identified significant deviations from the volumes of gas recorded; the 2% factor is reasonable and appropriate. Nicor Gas agrees to the accounting procedures recommended by Staff. (Gorenz Reb., Nicor Gas Ex. 26.0, 51:1105-55:1196; Gorenz Sur., Nicor Gas Ex. 45.0, 13:275-14:295).

Staff witness Anderson stated that he is concerned that the Company's 2% adjustment factor does not distinguish between two types of non-recoverable gas losses: those related to the replenishment of non-effective gas, which he terms "performance variation," and "physical loss," which is loss from storage processes. He recommends that the Commission direct the company to follow Staff's proposed methodology to track the two types of gas losses, and to direct that a copy of written procedures be provided within 60 days after a final order is entered in this case. (Anderson Dir., Staff Ex. 9.0, 9:154-29:560; Anderson Reb., Staff Ex. 22.0, 7:120-19:372).

Staff witness Hathhorn testifies that the cost of storage gas volumes associated with gas lost to the atmosphere should be classified as a current operating expense and recorded in Account 823, and losses not attributable to specific causes or incidents should be recorded in Account 352.3. She recommends that in the future Nicor Gas be required to record gas losses in compliance with Part 505, according to the nature of the losses. (Hathhorn Dir., Staff Ex. 2.0, 34:852-58; Hathhorn Reb., Staff Ex. 15.0, 14:307-15:320).

Nicor Gas witness Bartlett disagrees that the 2% storage factor is inappropriate and explains in detail why the factor appropriately accounts for storage gas losses. He explains the use of the Inventory Verification Study ("IVS"), which shows that the 2% withdrawal factor is proper. He responds to Staff's argument for a change in handling storage losses and offers a plan for transitioning from the current approach to a revised approach to be implemented prospectively. (Bartlett Reb., Nicor Gas Ex. 19.0, 7:162-11:259; Bartlett Sur., Nicor Gas Ex. 38.0, 9:201-16:356).

B. REPORTING OF AFFILIATE TRANSACTIONS

Issue: None

Amount: N/A

Witnesses: Staff witness Hathhorn proposed that the Company annually file a report of affiliate transactions as a Supplemental Schedule to Form 21 ILCC. (Hathhorn Dir., Staff Ex. 2.0, 35:866-36:882)

Nicor Gas witness Gorenz explains that the Company agrees with Staff's proposal, subject to particular reporting formats. (Gornez Reb., Nicor Gas Ex. 26.0, 55:1201-1204). Staff witness Hathhorn accepted the suggested reporting formats. (Hathhorn Reb., Staff Ex. 15.0, 18:395)

C. OPERATING AGREEMENT

Issue: None

Amount: N/A

Witnesses: Staff witnesses Hathhorn and Sackett identify several questions involving affiliate issues and the application of the Company's Commission-approved Operating Agreement. Staff recommends that the Commission initiate an investigation to further examine these issues. (Hathhorn Reb., Staff Ex. 15.0, 18:397-22:491; Sackett Reb., Staff Ex. 24.0, 47:1028-52-1126)

Nicor Gas witness O'Connor explains that the Company has properly applied its tariffs, and that its interactions with affiliates are proper and conform with Commission Orders and rules. While the Company does not believe an investigation is warranted, it has no objection to the Commission initiating an investigation into the Operating Agreement, to examine the issues raised by Staff witnesses Hathhorn and Sackett. (O'Connor Sur., Nicor Gas Ex. 46.0, 19:397-24:512)

XVII. CONCLUSION

The Company respectfully requests that the Commission adopt Nicor Gas' proposals, a set forth herein.

Dated: November 7, 2008

Respectfully submitted,

NORTHERN ILLINOIS GAS COMPANY
D/B/A NICOR GAS COMPANY

By: /s/ John E. Rooney
One of its attorneys

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CERTIFICATE OF SERVICE

I, John E. Rooney, hereby certify that I caused a copy of Nicor Gas Company's Prehearing Memorandum to be served upon the service list in Docket No. 08-0363 by email on November 7, 2008.

/s/ John E. Rooney
John E. Rooney